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BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Postmaster General

COMPLETED
23

Postal Service Procedures For Acquiring And Altering Leased Space Need Revision

The Postal Service leases 89 million square feet of space at an annual rent of about $234.6 million. GAO found that the Postal Service:

--Paid rents amounting to $2.24 million in 10 major leased facilities while the space was vacant during long periods of layout preparation and alteration.

--Frequently did not advertise its space requirements and obtained only limited competition in acquiring leased space.

--Often did not prepare proper independent detailed cost estimates when it contracted on a sole-source basis for alterations.

GAO is recommending actions designed to improve Postal Service's leasing procedures and practices.

GAO/PLRD-82-79
JUNE 16, 1982

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

PROCUREMENT, LOGISTICS,
AND READINESS DIVISION

B-207075

The Honorable William F. Bolger
Postmaster General

Dear Mr. Bolger:

This report discusses problems the Postal Service has experienced in acquiring and altering leased space.

This report contains recommendations to you on page 12. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget, and to the Chairmen, House Committees on Appropriations, on Government Operations, and on Post Office and Civil Service, and Senate Committees on Appropriations and on Governmental Affairs.

Sincerely yours,

Donald J. Horan

Donald J. Horan
Director

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GENERAL ACCOUNTING OFFICE
REPORT TO THE POSTMASTER GENERAL

POSTAL SERVICE PROCEDURES FOR ACQUIRING AND ALTERING LEASED SPACE NEED REVISION

D I G E S T

GAO made this review because the Postal Service leases a sizable amount of space and Federal agencies have experienced problems in acquiring and altering leased space. The Postal Service leases about 89 million square feet of space at an annual rental of about $234.6 million. During fiscal year 1981, the Postal Service spent about $27 million on alterations of leased space. (See pp. 1 and 2.)

GAO found that the Postal Service:

--Paid rent over extended periods for space not ready for occupancy in 10 major leased facilities.

--Frequently did not advertise its space requirements and obtained only limited competition in acquiring leased space.

--Frequently did not prepare proper independent detailed cost estimates when it contracted on a sole-source basis with lessors for alterations. (See p. 3.)

RENT PAID FOR SPACE NOT READY FOR OCCUPANCY

The Postal Service leased 10 facilities on an "as-is" basis and therefore was required to pay rent of $2.24 million while the space was vacant during layout preparation and alterations. The number of months for which rent was paid for unoccupied space ranged from 9 to 27 months.

For example, the Postal Service leased 22,375 square feet of warehouse space in Capitol Heights, Maryland, to be used as a temporary mail processing facility. The lease term commenced October 1, 1980, at an annual rental of $67,125. The space remained unoccupied until February 18, 1982. Rent of $92,856 was paid for the approximately 16-1/2 months the space was vacant while alterations were being completed. The space requirement was not advertised. The selected space was identified in a hasty market survey. Despite the cited urgency of obtaining the space, the Postal Service was slow

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in proceeding with alterations--9 months elapsed from the time of lease award in September 1980 until the Postal Service contracted for the alteration work in June 1981. The delay was caused primarily by design changes.

Postal Service regulations and procedures do not provide guidance on circumstances permitting the leasing of space as is and the paying of rent for vacant space undergoing alteration or the administrative procedures to be applied in such cases. Whenever possible, the Postal Service should avoid paying rent for unoccupied space. GAO recognizes that the Postal Service may be unable to avoid paying rent before occupancy in all cases while alterations are being completed. However, leasing as is should only be allowed in unusual situations and should be supported by a written determination that suitable space was not otherwise available. Furthermore, subsequent administration of as-is leases should ensure that alterations are completed promptly. (See pp. 3 to 7 and 11.)

LIMITED COMPETITION OBTAINED IN ACQUIRING LEASED SPACE WITHOUT ADVERTISING

Although Postal Service policy favors open advertising and competition, only limited competition exists on many lease awards. GAO reviewed 32 new leases and found that the Postal Service did not advertise its space requirements in 20, or 63 percent, of the cases. When it did advertise its space requirements, it obtained more than one offer in 7 of 12 cases. When it did not advertise, it was not successful in obtaining multiple offers. In 19 of the 20 cases that were not advertised, leases were awarded on the basis of a single offer. According to Postal Service officials, there were appropriate reasons for not advertising in these instances. However, GAO found that appropriate reasons for not advertising were documented in only 7 of the 19 lease awards.

If the Postal Service had followed its own procedures requiring advertising, it would have had greater assurance of obtaining maximum competition and the most economical rents. (See pp. 7, 8, and 11.)

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INDEPENDENT ESTIMATES OF LESSOR-PERFORMED ALTERATIONS NOT PREPARED OR IMPROPERLY PREPARED

The Postal Service frequently did not prepare independent detailed cost estimates based on final plans when it contracted on a sole-source basis with lessors for alteration work. Instead, it used budget estimates based on preliminary plans, undetailed estimates, and "fair and reasonable" reviews. Frequently, there was no documentation showing that any estimate or fair and reasonable review was prepared. The lack of reliable independent estimates placed Postal Service negotiators at a disadvantage since it limited their ability to question lessors' proposals and evaluate the reasonableness of prices.

Postal Service leasing procedures and the Postal Contracting Manual do not specifically require independent estimates when contracting for alterations in leased space even though such alterations are often negotiated on a sole-source basis with lessors. GAO believes that independent estimates should be used as an aid for determining reasonableness of proposals submitted by sole-source contractors. Such proposals require closer scrutiny than competitive bids. (See pp. 8 to 11.)

RECOMMENDATIONS

The Postmaster General should:

--Issue instructions requiring the Postal Service, whenever possible, to avoid paying rent for space before it is ready for occupancy. Leasing as is should only be allowed in unusual situations and should be supported by a written determination that suitable space was not otherwise available. Accompanying the determination should be a fully documented rationale which considers the economics of the case and other pertinent factors.

--Issue instructions that, where it may be necessary to lease space as is, subsequent administration of the lease should ensure that alterations are completed promptly.

Tear Sheet

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--Monitor the leasing program to ensure that space requirements are advertised and that maximum competition is obtained in acquiring leased space.

--Revise the Postal Service Realty Acquisition and Management Handbook and the Postal Contracting Manual to require independent detailed cost estimates based on final plans when the Postal Service contracts on a sole-source basis with lessors for alteration work. (See p. 12.)

AGENCY COMMENTS

The Postal Service said that, although some errors in judgment or execution are inevitable in such a vast leasing program, it was generally satisfied with its management of the program. However, the Postal Service said that it will act upon GAO's recommendations for program improvements. The Postal Service agreed with three of the four recommendations in the draft of this report. It did not concur with the recommendation that the Postmaster General should issue instructions requiring the Postal Service to advertise for space which fully meets its needs with rental payments to begin when the altered space is ready for occupancy. According to the Postal Service, it might be criticized for artificially restricting competition if it followed this approach. However, the Postal Service stated that it would issue a formal instruction to its real estate offices advising them to avoid paying rent, whenever possible, for space prior to occupancy, except in unusual circumstances and when supported by proper documentation. GAO revised the recommendation and Postal Service officials concurred with the revised recommendation. (See pp. 12 and 13 and app. I.)

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ABBREVIATIONS

FREBO	Field Real Estate and Buildings Office
GAO	General Accounting Office
GSA	General Services Administration

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CHAPTER 1

INTRODUCTION

The Postal Reorganization Act of 1970--the provisions of which became fully effective July 1, 1971--authorizes the U.S. Postal Service to acquire, in any lawful manner, such real property, or any interest therein, as it deems necessary in the transaction of its business; to hold, maintain, sell, lease, or otherwise dispose of such property or any interest therein; and to construct, operate, lease, and maintain buildings, facilities, equipment, and other improvements on any property owned or controlled by it (39 U.S.C. 401 (5) and (6)). The act also authorizes the Postal Service to enter into such contracts, agreements, and arrangements, upon such terms and conditions and in such manner as it deems necessary (39 U.S.C. 2008 (c)). Under this broad statutory authority, the Postal Service is not limited by statute to the terms and conditions thereof.

As of September 30, 1981, the Postal Service was administering 29,153 leases involving about 89 million square feet of space at an annual rental of about $234.6 million. 1/ This accounts for about 25 percent of the Government's total annual rentals paid for real property. The future minimum rentals for all noncancelable leases at September 30, 1980, totaled about $1.2 billion. Many leases contained renewal options. As shown below, the amount of Postal Service leased space has decreased in recent years, but annual rentals have increased.

As of fiscal year end	Postal Service leased space (millions of square feet)	Annual rental (millions)
1977	96.0	$205.0
1978	94.7	211.7
1979	91.6	214.9
1980	89.8	222.3
1981	89.0	234.6

(The above table includes space leased from GSA.)

1/This includes about 4.6 million square feet of space in facilities leased from the General Services Administration (GSA) at an annual cost (GSA's standard level user charges) of about $24.4 million.

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Most of the leases are for post offices, sectional centers, and air mail, parcel post, and vehicle maintenance facilities. During fiscal year 1981, the Postal Service spent about $27 million on alterations of leased space.

The Postal Service's leasing operations are carried out at 15 Field Real Estate and Buildings Offices (FREBOs) in 5 regions under policy and procedural direction from the Office of Real Estate, Real Estate and Buildings Department, Postal Service Headquarters in Washington, D.C.

OBJECTIVES, SCOPE, AND METHODOLOGY

We reviewed selected Postal Service leasing procedures and practices. Our objectives were to determine whether the Postal Service was (1) obtaining maximum competition in lease acquisitions and negotiating with all offerors to secure the most advantageous proposal, (2) avoiding paying rent before leased space was ready for occupancy, and (3) adhering to sound procedures in contracting for alterations of leased space.

Our review was made at the Postal Service FREBOs in New York, New York; Columbia, Maryland; and Seattle, Washington; and the Postal Service Eastern Region office in Philadelphia, Pennsylvania. As of September 30, 1981, the three FREBOs accounted for 8,765 leases (30 percent of all Postal Service leases) with annual rentals totaling $67.6 million (29 percent of the Postal Service's total annual rental cost). We reviewed 32 leases for competition on lease awards at the New York and Columbia FREBOs with annual rentals totaling $3.7 million. In making our selection of leases to be reviewed, we picked leases whose initial term began after fiscal year 1974, concentrating mostly on those with the largest annual rentals. We also reviewed 43 cases of lessor-performed alterations negotiated by the three FREBOs on a sole-source basis after fiscal year 1974 with a total cost of $3.9 million.

We reviewed lease files and related records, internal audit reports, the Postal Service Realty Acquisition and Management Handbook, the Postal Contracting Manual, and provisions of the Postal Reorganization Act of 1970 that pertain to the acquisition of real property. We also had discussions with Postal Service real estate officials at the three FREBOs, the Eastern Region office, and the Postal Service Headquarters.

We performed our work in accordance with our current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions." The leases and lessor-performed alterations we reviewed were not selected on a statistical sampling basis. However, we believe that we reviewed enough leases and alteration projects to indicate whether problems exist in Postal Service procedures for acquiring and altering leased space.

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CHAPTER 2

IMPROVED PROCEDURES NEEDED

FOR ACQUIRING AND ALTERING LEASED SPACE

The Postal Service needs to improve its procedures for acquiring and altering leased space. We found that the Postal Service:

--Paid rent over extended periods for space not ready for occupancy in 10 major leased facilities.

--Frequently did not advertise its space requirements and obtained only limited competition in acquiring leased space.

--Frequently did not prepare proper independent detailed cost estimates when it contracted on a sole-source basis with lessors for alterations.

RENT PAID FOR SPACE NOT READY FOR OCCUPANCY

Ten of the leases we reviewed involved facilities leased on an "as-is" basis, for which the Postal Service paid rent of $2.24 million (excluding real estate taxes) 1/ while the space was vacant during layout preparation and alterations. The number of months for which rent was paid for unoccupied space ranged from 9 to 27 months. FREBO officials said that the lessors involved would only lease on that basis and that suitable space was not otherwise readily available. However, Postal Service regulations and procedures do not provide guidance on circumstances permitting the leasing of space as is and the paying of rent for space which is unusable because alterations are needed or on the administrative procedures to be applied in such cases.

A summary of the 10 cases and details on 2 of the cases follow.

1/Many Postal Service leases contain tax clauses requiring the Postal Service to pay State and local real estate taxes on the leased space.

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Leases Where Rent was Paid for Unoccupied Space While Undergoing Alterations

Facilities	Annual rent	Effective date of lease	Date of occupancy	Months unoccupied	Rent paid while space was unoccupied
New York FREBO					
Westchester Vehicle Maintenance Facility	$ 47,000	02/01/80	10/23/81	20.7	$ 81,075
Flushing Vehicle Maintenance Facility	120,000	05/01/76	10/26/77	17.8	178,000
Hicksville Vehicle Maintenance Facility	54,000	12/01/78	03/31/80	16.0	72,000
Jamaica Vehicle Maintenance Facility	135,000	02/01/76	05/01/78	27.0	303,750
Bowling Green Station	396,000	11/01/74	01/28/77	26.9	887,700
Poughkeepsie Sectional Center Facility	148,222	05/01/75	10/14/76	17.4	214,922
Columbia FREBO					
Southern Maryland Temporary Mail Processing Facility	67,125	10/01/80	02/18/82	16.6	92,856
Twinbrook Station	62,100	07/01/77	03/31/78	9.0	46,575
Seattle FREBO					
Portland Federal Station	199,950	02/15/80	09/19/81	19.1	318,254
Seattle North City Carrier Annex	51,100	10/09/78	09/01/79	10.7	45,564
Total					$2,240,696

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Southern Maryland Temporary Mail Processing Facility

On September 2, 1980, the Postal Service awarded a lease for 22,375 square feet of space in a warehouse building in Capitol Heights, Maryland. The lease is for a 3-year term, starting October 1, 1980, with two 3-year renewal options. The annual rent is $67,125 for the initial term, $73,837.50 for the next 3-year term, and $81,668.75 for the last 3-year term.

The premises are to serve as a temporary mail processing facility pending the construction of a permanent facility expected to be completed in 1985. The space was leased as is and required design and alteration work costing $493,828 1/ (architect-engineer fees totaling $59,408 and alteration costs of $434,420). It remained unoccupied until February 18, 1982. Rent of $92,856 was paid for the 16.6 months the space was vacant while alterations were being completed. Thus, the Postal Service spent about $587,000, or about $26 a square foot, to convert the premises to a temporary mail processing facility.

The space requirement was not advertised. The selected space was identified in a hasty market survey and the lease was negotiated on a sole-source basis. Urgency was cited as the basis for the hasty acquisition process. Despite the cited urgency, the Postal Service was slow in proceeding with alterations--9 months elapsed from the time of lease award in September 1980 until the Postal Service contracted for the alteration work in June 1981.

On July 21, 1980, the Regional General Manager of Real Estate advised Postal Service real estate specialists at the Columbia FREBO that 20,000 to 25,000 square feet of warehouse space was urgently required for a mail processing facility in Prince George's County, Maryland. The real estate specialists were directed to identify the space by noon the next day. On July 22, 1980, the real estate specialists identified two suitable locations. On July 25, 1980, an Eastern Region official instructed them to negotiate a lease for the Capitol Heights facility.

An architect-engineer contract was awarded on October 23, 1980, for design of the alteration work. At that time, it was anticipated that the design would be completed in December 1980 and a bid package for the alteration work issued by January 5, 1981. However, in February 1981, after initial drawings had

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1/The cost of change orders not yet negotiated may increase the cost by up to about $32,000.

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been completed, the Eastern Region's Operational Requirements Branch requested design changes because the operational concept had changed. As a result, the bid package was not issued to prospective bidders until May 19, 1981, and the contract for alteration work was not awarded until June 11, 1981.

On May 5, 1981, the new Regional Postmaster General requested further design changes. In order not to cause further delay, the Postal Service decided to advertise the project without these additional design changes and instead accomplish the design changes by change order to the alteration contract. This may result in extra costs because the work required by change order will have to be negotiated on a sole-source basis rather than contracted on a competitive basis. Also, revision of design drawings for these changes further delayed the start of alteration work by about 60 days.

Bowling Green Station

Leased space for the Bowling Green Station in New York, New York, was unoccupied for about 27 months due to delays in completing alterations. Rent of $887,700 was paid for this period. Major delays occurred due to changes in the scope of the project and redesign work required because of unanticipated problems during the construction phase. Real estate officials at Postal Service Headquarters told us that the time required to complete alterations varies with the size and complexity of the project but that 27 months is certainly unreasonably long.

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In 1978 and 1979 we reported similar findings regarding GSA's payment of $3.5 million in rent for unoccupied space in seven buildings while undergoing alterations. We stated that GSA should avoid paying rent for space that is not ready for use. In 1978 we recommended that the Administrator of General Services take appropriate steps to assure that alteration work is supervised and coordinated properly and completed by the anticipated occupancy date.

The leasing of unoccupied space by GSA has attracted congressional attention on several occasions. The Senate Committee on Environment and Public Works and other congressional committees have criticized GSA for leasing space as is and paying rent while it is vacant for extended periods of time during layout preparation and alterations.

In March 1980 GSA issued instructions to its regional offices emphasizing that its policy is to lease space fully meeting client agencies' needs with rental payments to begin when the altered space is ready for occupancy. The instructions recognize that it may be necessary to make exceptions to this policy. However, such exceptions must be justified in writing and approved by the regional administrator. Furthermore, the instructions require that subsequent administration of such as-is leases should ensure that alterations are completed on schedule.

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According to the Postal Service, FREBOs may sometimes be unable to avoid paying rent before occupancy due to competition for space. We realize that, in some cases, the Postal Service may be unable to avoid paying rent before occupancy while alterations are being completed. However, leasing as is should only be allowed in unusual situations and should be supported by a written determination that suitable space was not otherwise available. Accompanying the determination should be a fully documented rationale which considers the economics of the case and other pertinent factors. Furthermore, subsequent administration of as-is leases should ensure that alterations are completed promptly.

LIMITED COMPETITION OBTAINED IN ACQUIRING LEASED SPACE WITHOUT ADVERTISING

The Postal Service Realty Acquisition and Management Handbook prescribes competition among a large number of responsible bidders as a prime requisite for a successful leasing program. It also states that widespread advertising consistently develops good sound lease bids. According to the handbook and the Postal Contracting Manual, open advertising and solicitation of prospective offerors is the method prescribed by the Postal Service to secure competition in acquiring a leasehold interest when seeking offers of existing facilities. Negotiations may then be conducted successively with all responsible offerors whose offers are within the competitive range. The many possible variations in offers make sealed bidding and acceptance of the lowest responsible bid impracticable.

However, the Postal Contracting Manual does permit noncompetitive negotiations:

--For acquisition of a new leasehold in an emergency when operations of an existing facility are being disrupted to such a degree as to preclude use of the open advertising method with the delays attendant therein.

--To acquire an additional leasehold interest of such short duration as to stimulate little or no competitive interest.

Despite Postal Service policy favoring open advertising and competition, the Postal Service frequently did not advertise for space and obtained only limited competition on many Postal Service lease awards. We reviewed 22 new leases at the Columbia FREBO and 10 new leases at the New York FREBO. For the 32 leases reviewed, we found that the Postal Service did not advertise its space requirements in 20, or 63 percent, of the cases. When the Postal Service advertised its space requirements, it obtained more than one offer in 7 of the 12 cases.

When it did not advertise, it was not successful in obtaining multiple offers. In 19 of the 20 cases that were not advertised, leases were awarded on the basis of a single offer.

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Only 6 of the 19 lease awards were described as "urgent" or "emergency" situations in the lease file. In four of the six cases, urgency was due to the imminent expiration of an existing lease where either the lessor wanted to terminate the lease or the Postal Service did not wish to continue occupancy and was looking for alternate quarters. Only 1 of the 19 lease awards appeared to involve the acquisition of an additional leasehold interest of such short duration as to stimulate little or no competitive interest.

Instead of advertising and soliciting offers from all potential lessors, the FREBOs frequently merely conducted a market survey of available space, and negotiations were then conducted for the location selected by Postal Service district or regional officials. In some cases, when more than one building was identified in the market survey, no reason was given in the lease files for not giving further consideration to the other locations. In other cases, apparently no market surveys were performed--district or regional officials just requested a specific location when they became aware of its availability, and the FREBOs then proceeded to negotiate a lease for that space.

FREBO real estate specialists told us that they thought advertising and soliciting offers would not have been productive in localities where the type of space required was scarce. They also said that advertising and soliciting offers would have been too time consuming if the space were urgently needed or if the desired location were in demand. Officials at Postal Service Headquarters, however, conceded that market surveys were likely to uncover only currently available space while advertising might also identify space that may become available in the near future.

If the Postal Service had followed its own procedures of requiring advertising, it would have had greater assurance of obtaining maximum competition and the most economical rents.

INDEPENDENT ESTIMATES OF LESSOR-PERFORMED ALTERATIONS NOT PREPARED OR IMPROPERLY PREPARED

The Postal Service contracts for alterations in leased buildings on a sole-source basis with lessors or on a competitive basis with third party contractors. The Postal Service prefers to have lessors rather than third party contractors do the alterations in leased buildings because of insurance, taxes, maintenance, restoration, and other considerations. If the lessor is unwilling to contract for the alterations or if agreement cannot be reached as to price, the Postal Service usually solicits bids under the competitive procurement process and contracts with a third party to accomplish the alterations.

We found that the Postal Service frequently did not prepare independent detailed cost estimates based on final plans when it contracted on a sole-source basis with lessors for

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alteration work. Instead, it used budget estimates based on preliminary plans, undetailed estimates, and "fair and reasonable" reviews to evaluate the reasonableness of lessors' proposals. Frequently, there was no documentation in the file showing that any estimate or fair and reasonable review was done. In our opinion, the lack of reliable, independent estimates placed Postal Service negotiators at a disadvantage since it limited their ability to question lessors' proposals and evaluate the reasonableness of prices.

Requirements for independent estimates

Various Government regulations require independent estimates of the cost of alterations to aid in evaluating lessors' proposals. The Federal Procurement Regulations (FPR 1-18.108) require that an independent Government estimate of construction cost be prepared for each proposed construction contract (including alteration contracts) of $10,000 or more. The estimate is to be in as much detail as the contractor's bid. GSA's leasing procedures require an independent estimate for all alterations in leased space exceeding $500. Such estimates are to be requested in writing at the same time that the lessor is requested to submit a proposal for the alteration work. These estimates are to be prepared without knowledge of any element of the lessor's price offer.

The Postal Contracting Manual also requires an independent estimate for each proposed construction contract with an anticipated cost of $10,000 or more. However, this provision, like the Federal Procurement Regulation cited above, does not apply specifically to alterations in leased space. Furthermore, the Postal Service Realty Acquisition and Management Handbook does not require independent estimates for alteration work in leased space, even though such alterations are often negotiated on a sole-source basis with lessors.

We believe that independent estimates are important to determine reasonableness of price when contracting on a sole-source basis. Proposals submitted by a sole-source contractor require closer scrutiny than competitive bids.

The Postal Service should revise the Postal Service Realty Acquisition and Management Handbook and the Postal Contracting Manual to specifically require independent detailed cost estimates of lessor-performed alterations. Such independent estimates should be the basis for determining reasonableness as to price. Without such estimates, the Postal Service has no basis for effective negotiation or assurance that the lessor's proposal is reasonable.

Seattle FREBO

At the Seattle FREBO, we reviewed 11 cases of lessor-performed alterations and found that Postal Service cost estimates in six of the cases were not reliable for evaluating lessors' proposals for

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alterations because they were budget estimates based on preliminary plans with vaguely defined requirements rather than final design drawings. For example, the Seattle FREBO prepared a budget estimate of $438,000 for an alteration project at the Seattle Terminal Annex. The lessor's proposal of $325,695 was considered reasonable because it was $112,305 less than the budget estimate. However, the Postal Service's estimate did not provide a reliable basis for concluding that the lessor's price proposal was reasonable because the estimate was based on preliminary plans.

Seattle FREBO officials agreed with our findings and drafted proposed procedures requiring the use of final cost estimates based on final plans for evaluating the reasonableness of lessors' price proposals. These procedures were approved by the Regional Director of the Real Estate and Buildings Department and issued to all FREBOs in the Western Region on January 25, 1982. We believe these procedures, if properly implemented, should result in better estimates for evaluating lessors' price proposals for alterations.

New York FREBO

At the New York FREBO, we reviewed 10 cases of lessor-performed alterations. In two of the cases, the lessor did both the design and alteration work. In eight of the cases, the lessor did only the alteration work. In most of the cases, there was no documentation in the files showing that an estimate was prepared.

According to FREBO officials, when the lessor does both the design and alteration work, the FREBO prepares undetailed cost estimates and if the lessor's price proposal is within 15 percent of the FREBO's undetailed estimate, it is accepted. Thus, in one of the two cases where the lessor did both the design and alteration work, the FREBO prepared an undetailed cost estimate of $340,000. The lessor submitted an undetailed offer of $345,000. His offer was accepted because it was within 15 percent of the FREBO's estimate. However, the Postal Service's estimate did not provide a reliable basis for concluding that the lessor's price proposal was reasonable because the estimate was not properly detailed. In the other case, there was no documentation in the files showing that an estimate was prepared.

A FREBO official told us that when the lessor does only the alteration work, the design work and detailed cost estimate are done in-house or by an architect-engineer retained by the Postal Service. If the lessor's proposal is within 15 percent of the detailed estimate, it is accepted. However, in six of the eight reviewed cases where the lessor did only the alteration work, there was no documentation in the files showing that an estimate was prepared.

Columbia FREBO

At the Columbia FREBO, we reviewed 22 cases of lessor-performed alterations and found that independent estimates of

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alteration costs were prepared in only 4 of the 22 cases. Fair and reasonable reviews of the lessor's price proposal were made in 15 of the 22 cases. Under this procedure, a member of the Postal Service engineering staff would review the lessor's price proposal and determine whether it was fair and reasonable. In most of these cases, the files contained no backup computations to show how the fair and reasonable determinations were arrived at. In 3 of the 22 cases, there was no record in the file of any Postal Service estimate or fair and reasonable review.

CONCLUSIONS

The Postal Service leased space on an as-is basis and paid rent over extended periods while it was vacant during layout preparation and alterations.

Postal Service regulations and procedures do not provide guidance on this matter. Whenever possible, the Postal Service should avoid paying rent for unoccupied space. Leasing as is should only be allowed in unusual situations and should be supported by a written determination that suitable space was not otherwise available. Accompanying the determination should be a fully documented rationale which considers the economics of the case and other pertinent factors. The rationale should also contain a realistic assessment of the time which space layout and alterations will consume. Furthermore, subsequent administration of as-is leases should ensure that the time frame imposed by the rationale is met.

The Postal Service frequently did not advertise for space and obtained only limited competition on many lease awards. If the Postal Service had followed its own procedures requiring advertising, it would have had greater assurance of obtaining maximum competition and the most economical rents.

An independent detailed cost estimate can be a useful tool to assist in negotiating reasonable prices when contracting for alterations on a sole-source basis. However, the Postal Service frequently did not prepare independent detailed estimates based on final plans when it contracted on a sole-source basis with lessors for alterations. Furthermore, Postal Service leasing procedures and the Postal Contracting Manual contain no specific requirement for such estimates.

The Postal Service should revise the Postal Service Realty Acquisition and Management Handbook and the Postal Contracting Manual to specifically require independent detailed estimates based on final plans when the Postal Service contracts on a sole-source basis with lessors for alteration work.

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RECOMMENDATIONS

The Postmaster General should:

--Issue instructions requiring the Postal Service, whenever possible, to avoid paying rent for space before it is ready for occupancy. Leasing as is should only be allowed in unusual situations and should be supported by a written determination that suitable space was not otherwise available. Accompanying the determination should be a fully documented rationale which considers the economics of the case and other pertinent factors.

--Issue instructions that, where it may be necessary to lease space as is, subsequent administration of the lease should ensure that alterations are completed promptly.

--Monitor the leasing program to ensure that space requirements are advertised and that maximum competition is obtained in acquiring leased space.

--Revise the Postal Service Realty Acquisition and Management Handbook and the Postal Contracting Manual to require independent detailed cost estimates based on final plans when the Postal Service contracts on a sole-source basis with lessors for alteration work.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on a draft of the this report (see app. I), the Postal Service said that, although some errors in judgment or execution are inevitable in such a vast leasing program, it was generally satisfied with its management of the program. However, the Postal Service said it will act upon our recommendations for program improvements. The Postal Service agreed with three of the four recommendations in the draft.

It did not concur with the recommendation that the Postmaster General should issue instructions requiring the Postal Service to advertise for space which fully meets its needs with rental payments to begin when the altered space is ready for occupancy. The Postal Service said it is impossible to advertise Postal Service space requirements in such technical detail as to insure that all space offered must fully meet Postal Service needs when rented. The Postal Service pointed out that even if it were possible and the Postal Service tried this approach, it might be criticized for artificially restricting competition. However, the Postal Service said it would issue a formal instruction to Postal Service FREBOs advising them to avoid paying rent, whenever possible, for space prior to occupancy, except in unusual circumstances and when supported by proper documentation. After further consideration and discussion with Postal Service officials, we agreed with this approach and

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revised our recommendation accordingly. Postal Service officials concurred with the revised recommendation.

Concerning limited competition, the Postal Service said that FREBOs generally advertise to obtain competition for lease awards, but that there are sometimes valid reasons for not advertising, as in various emergency situations or when trying to acquire additional space in already leased property. We found that 19 out of 32 leases reviewed were awarded on the basis of a single offer without advertising. Only six of these lease awards were described as urgent or emergency situations in the lease file. Only one of these lease awards appeared to involve the acquisition of additional space in already leased property.

With respect to independent estimates, the Postal Service said that FREBOs do obtain independent evaluations of the reasonableness of lessors' cost estimates for lessor-performed improvements (alterations) but in some cases, particularly for minor improvements, the evaluations may be informal and not preserved.

We reviewed 43 cases of sole-source lessor-performed alterations and found that in 31 of the cases, the Postal Service either did not prepare proper independent detailed cost estimates or did not document the estimates in its files. The 31 cases included 13 alterations costing over $25,000, of which 6 cost over $100,000. These 13 cases could not be classified as minor projects. As stated previously, we recognize that the extent of detail for an estimate may vary with the size and scope of the project.

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APPENDIX I

THE POSTMASTER GENERAL
Washington, DC 20260-0010

April 7, 1982

Dear Mr. Anderson:

This refers to your draft report entitled "The Postal Service Needs to Improve Its Procedures for Acquiring and Altering Leased Space."

As the report notes, the Postal Service, working through its fifteen Field Real Estate and Buildings Offices (FREBO's) administers more than 29,000 leases in thousands of different communities. To manage such a program, our FREBO's must have some administrative latitude in the ways they go about acquiring and altering leased space, in widely differing circumstances, in order to meet changing operational needs.

For example, FREBO's try to avoid paying rent before occupying space, but in some local situations the competition for space is such that they cannot avoid doing so. (This has been particularly true in the New York FREBO area, which was included in your survey.)

Similarly, to obtain competition, FREBO's generally advertise when they want to lease space. However, there are sometimes valid reasons for their not doing so, as in various emergency situations, or when trying to acquire additional space in an already leased property.

FREBO's do obtain independent evaluations of the reasonableness of the cost estimates for lessor improvements, but in some cases, particularly for minor improvements, the evaluations may be informal and not preserved.

Though some errors in judgement or execution are inevitable in a leasing program as vast as ours, we do think our FREBO's are doing a good job.

However, we are not complacent about our performance and we welcome and will act upon your recommendations for program improvements.

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APPENDIX I

As was mentioned in discussions with your staff, we do not concur with the recommendation to issue instructions requiring FREBO's to advertise our requirements in such technical detail as to insure that all space offered must fully meet our needs when rented, with payment to begin when the altered space is ready for occupancy. This is a practical impossibility and if we tried this approach we might well be criticized for artificially restricting competition. However, we will issue a formal instruction to our FREBO's advising them to avoid paying rent, wherever possible, for space prior to occupancy except in unusual circumstances and when supported by proper documentation.

Thank you for the opportunity to comment on this report.

Sincerely,

William F. Bolger

Mr. William J. Anderson
Director, General
Government Division
U. S. General Accounting Office
Washington, D.C. 20548

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